"Fix It" Episode VI - Investing in our Infrastructure:

I mentioned in Episode V that infrastructure is important to secure and grow manufacturing. In fact, it is essential. You must be able to transmit energy, move goods and services, and have access to water and internet and all kinds of things in order to have an efficient manufacturing process. Regardless of what you are producing, infrastructure is key. And, at the risk of adding to the overusage of this trite phrase, our infrastructure is crumbling. One needs only to drive one's car in Washington, DC or Los Angeles, California (as I do frequently) to feel that infrastructure crumbling beneath your tires. Our support systems in DC, LA, or wherever you live are in bad shape because the priorities for federal spending have shifted over the last 50 years. Social programs now eat up the bulk of government spending at the federal, state, and local levels. The cost of these social programs crowds out what used to be spent on infrastructure. In some cases, taxes or fees that were sold as "user fees" to pay for infrastructure have been diverted for social programs or used to try to maintain exorbitant government employee pensions. My home state of California has practically made this an art form. In other cases, funds generated by "user fees" are declining while the need for them has risen. The best example of this is the federal gas tax. As cars become more fuel efficient, revenues from this tax (collected in cents per gallon rather than a percentage of the price) are dropping on an absolute basis. However, as revenues shrink, the total number of miles being driven on our roads is actually rising - as is the cost of repairing, building and maintaining those roads.

I would love to tell you that we can divert tax revenue away from social programs, but we need to reduce the overall costs of those programs just to get the deficit down. And, when we say "infrastructure", we normally think of roads and bridges and sewers and such that need improvement or refurbishment. But in the 21st century, "infrastructure" may need to include some things we haven't even built yet, like a coast-to-coast wireless broadband system. How do we pay for all of this? I fear that it is politically and practically impossible to fund infrastructure out of general tax revenues any longer. So what to do?

We will need to continue to rely on user fees to help restore our infrastructure to its original splendor. The gas tax is one form of a user fee, as are parts of your water and electric bills. But, even these have their limitations. Some have been diverted, as I mentioned, and I doubt that many of you are chomping at the bit to see increased gas taxes. Furthermore, both the federal government and state governments have borrowed too much and have little borrowing capacity left.

So, I believe the solution is to utilize a structure in the tax code known as "Master Limited Partnerships"(MLP) to get private sector money to fund public infrastructure. There is not enough room here for me to get into the technical details of how the tax aspects of this work. I am also not interested in further highlighting my tax-geekness. But, suffice it to say that private capital can build a road (or bridge or electric transmission line or dam or whatever) and get favorable tax treatment for so doing. And, the MLP would be paid for by a user fee somewhere in the chain. This could be a toll on a toll road or an increment on an electric bill. When the MLP is paid off, the public then owns the road.

I wish that it was possible do this some other way. However, I fear that if we don't implement this solution, we will just wait and wait to pay for repairs out of general tax revenues and our infrastructure will further deteriorate due to inaction. Plus, user fees are extremely equitable, of course. And, using private sector money means we can do this with no new government taxes, deficit or debt. Very importantly, the MLPs will ensure through contract that the user fees collected will not be diverted. And, the growth that would be generated directly by a surge in our infrastructure capabilities would be astounding. Part of that surge would be felt directly by means of repairs and new construction. But, most of the effects would be indirect as other businesses use the new infrastructure to facilitate risk taking and growth.

This could be pretty cool actually.